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HISTORY OF THE STATE DEBT OF OHIO. II

Having traced the growth of the state debt of Ohio from its inception in 1825 to its maximum in 1846, we are now in a position to estimate the value of the sinking fund policy, and to follow its further history. It will be remembered that the law of February 4, 1825, creating the public debt of Ohio, also provided for a sinking fund for the payment of the interest and principal of the debt. The payments which should have been made into the sinking fund under the provisions of the law are shown in Table I. It will be seen that down to 1845 not a single dollar in the sinking fund had been devoted to the payment of the principal of the debt. The accumulations in the fund should have amounted by that year to \$525,000. What disposal was made of these sums can be best related in the words of a contemporary:³³

Here was a provision for a sinking fund. What has become of it? It was created by a legislative provision. The law contained the pledge of the state that it should never be repealed or altered, that the taxation should never be reduced. It was the duty of the officer of the state to lay such tax, and yet in 1844 or 1845 we found that not only was there no sinking fund, but there was a large indebtedness floating hither and thither from one bank to another, and from one fund to another, as the books in the auditor's office will show. Then the inquiry was instituted and the question raised as to what had become of the amount unaccounted for. The inquiry was made in 1845.³⁴ It was found that in view of the severity of the times and the vacillation attendant upon the legislature by the change of parties (I use the word in no invidious sense), one party sometimes having the ascendancy, and sometimes the other, the full tax had not been levied, and that for the purpose of paying the interest, the officers of the state were resorting to temporary loans, and using the funds for one purpose, which had been appropriated to another, and thereby a large debt was created. I am not mistaken in saying that \$1,500,000 has thus been added to the principal of our debt, while by law we should have had a constantly increasing sinking fund.

³³ Reuben Hitchcock of Cuyahoga County, in *Debates of Constitutional Convention of Ohio* (1851), I, 484.

³⁴ The speaker doubtless refers here to the Report of the Board of Commissioners appointed by act of March 12, 1845, to examine the accounts of the Board of Canal Commissioners.

Not only were the amounts raised for the payment of the principal of the debt diverted to other purposes but even the sums destined for the payment of the interest on the debt were used for objects other than those for which the money was raised. It became evident that it was a mistake to embrace in the same fund two different objects, namely the payment of the interest and the payment of the principal of the debt. Far from insuring the latter purpose, it served only to jeopardize the former. The hand-to-mouth policy of the fund commissioners led more than once to practical insolvency of the sinking fund, even for the purpose of meeting the interest payments. On March 15, 1845, for example, the entire amount applicable to the interest upon the state debt, and the payment of a large balance of outstanding checks and claims for repairs on the public works, was only \$13,872, while the accruing interest alone falling due in May and July of that year was \$582,723.³⁵ A large part of this sum was consequently borrowed by the fund commissioners, on temporary loans, which were partially renewed, as far as necessary, from year to year.

In 1846 a change was made in the system of taxation which greatly augmented the revenues of the state and put the finances upon a sounder basis. At the same time a commencement was made in the reduction of the state debt. In 1846 the first payment upon the principal of the debt was made since the issue of the first stock in 1825. This payment amounted to \$85,002. It is interesting to note that, although the sinking fund had been in existence eighteen years, this was the first application of its resources to the payment of the debt. The general revenues of the state for this year, however, were barely sufficient to meet the demands upon the treasury, leaving unpaid the deficits of other years. In 1847 there was a surplus in the state treasury for the first time in eleven years, owing largely to the revised system of taxation. There was also a balance in the sinking fund of \$213,248, which was used to discharge the greater portion of the temporary loans outstanding, of about \$300,000, incurred to meet interest payments.

³⁵ *Auditor's Report*, December 11, 1847.

It was clear, however, that not merely must these old debts be paid, but further ones for a similar purpose must be prevented. "The facility with which money can be obtained and debts created by the state," wrote the auditor,³⁶ "is, perhaps, one of the greatest defects in our government." In order to meet this evil he concluded that

the only legislative action which is deemed necessary at the present session, in relation to the large amount of the foreign debt of the state becoming due in 1850, is to require that a sufficient tax shall be levied to provide an annual sinking fund of at least \$200,000. To fail, in the present condition of our finances, to make this provision, would, in my judgment, be to neglect the most important interests of the state.

This recommendation was followed by the legislature during its next session in the "act to provide for the extinguishment of the public debt of Ohio."³⁷ By this act the auditor was required to levy taxes for the purpose of creating a sinking fund for the payment of the debt. This must amount to \$100,000 in 1849, and an equal amount each successive year plus 6 per cent at compound interest rates, until the debt should be fully paid. Thus \$106,000 must be raised in 1850; \$112,360 in 1851, etc., according to which plan the debt would be expunged in forty years. It was provided that the sinking fund was to be used only for the payment of the principal of the debt. The canal fund commissioners were authorized to pay the debt, to buy bonds, and to cancel them. The third section of the act declared that

the fund commissioners shall not renew these bonds, or extend the times of payment of the funded debt of the state, in any manner that will prevent the state from applying the sums contemplated to be raised by the provisions of this act.

This provision was undoubtedly meant to secure the application of the sinking fund to the payment of the debt and to forbid the refunding of matured obligations. It was too sweeping as it stood, however, and another act passed the same day³⁸

³⁶ *Auditor's Report*, 1847, *Exec. Docs.*, I, 69.

³⁷ February 24, 1848.

³⁸ February 24, 1848.

authorized the canal fund commissioners to redeem the 5 per cent and 6 per cent funded debt of the state payable after 1850 with other certificates; it also authorized the payment of the 6 per cent debt payable after 1860 with other certificates, but they could not be issued at a higher rate of interest, nor sold for less than par. Later amendments³⁹ fixed the date of maturity of this last issue "between 1860 and 1875 as the commissioners may determine."

For the second time in its history Ohio now had a sinking fund established by law. The law of 1848 was much more carefully drawn up than the law of 1825; less discretion was left to the fund commissioners, and the policy was made imperative so far as legislative action could do it. It differed, too, from the law of 1825 in providing only for the payment of the principal, and was thus the first real sinking fund, in the strict meaning of the term. A good beginning was made during the year by the appropriation of \$404,755 of surplus revenues to the payment of the principal of the debt.⁴⁰ The policy of debt payment was now at last fairly begun after a lapse of over twenty years from the date of the creation of the first sinking fund. The effect of this and of the provision of the law re-instituting the sinking fund was at once reflected in the stock market. "The credit of Ohio stocks," reported the fund commissioners in 1849, "excepting at their first creation, has never stood so high as now. Ohio 6 per cents of 1860 were quoted in New York at 103¼."⁴¹

On December 31, 1850, there fell due bonds amounting to \$4,385,651, payable in New York City. As no means had been provided for the payment of this debt, it was deemed desirable by the General Assembly to extend the time of payment, by issuing new stocks for the redemption of the certificates falling due.⁴² Accordingly, under the acts "to authorize the canal fund commissioners to exchange certain certificates of the funded

³⁹ March 21, 1849, and March 19, 1850.

⁴⁰ *Auditor's Report* (1848), 24.

⁴¹ *Report of Board of Canal Fund Commissioners* (January 15, 1849), 107.

⁴² Governor's Message (1850), *Exec. Docs.*, I, 3; *Auditor's Report*, 210.

debt of this state,"⁴³ there were issued \$1,025,000 of 5 per cent stock payable in New York City after 1865; \$1,516,468.43 of 6 per cent stock payable after 1870; and \$1,600,000 of 6 per cent stock payable after 1875. The premiums renewed upon the new stock amounted to more than \$300,000, after the payment of all charges and expenses. In addition to this premium, \$625,000 of the old 6 per cent stock was reduced to a 5 per cent basis, thus saving in interest an additional sum of \$6,250 annually. Of the debt that now remained it was stated that \$6,507,829, or over one-third, was held in foreign countries, and principally in Europe.⁴⁴ By the refunding operations the debt had now been thrown into a very manageable form, as shown in the following table:

OHIO STATE DEBT AFTER REFUNDING OPERATIONS OF 1850

Date of Issue	Rate of Interest	Date Redeemable	Amount
1843.....	7	After 1851	\$ 1,500,000
1837.....	5	After 1856	150,000
1836-40.....	6	After 1856	3,365,779
1838-43.....	6	After 1860	6,862,781
1850.....	5	After 1865	1,025,000
1842-43.....	6	After 1870	667,063
1850.....	6	After 1870	1,516,468
1850.....	6	After 1875	1,600,000
			\$16,687,091

In 1851 the second constitutional convention of Ohio met to draw up a new constitution. The old one, adopted when the state entered the Union, had long been outgrown and changes in the fundamental law were urgently needed. The men who gathered for this purpose were for the most part thoroughly opposed to the further exercise of state activities in providing internal improvements, and in framing the sections of the constitution relating to the public debt they clearly showed their attitude. The state debt is dealt with in Art. VIII. Secs. 1 to 3 provide that the debt, except for purposes of defense, shall

⁴³ Acts of March 21, 1849, and of March 19, 1850.

⁴⁴ *Report of Commissioners of Canal Fund*, February 12, 1850.

never exceed \$750,000; secs. 4 to 6 provide that the state shall not loan its credit, assume the debts of any local division, or authorize any local unit of government to subscribe to the stock of any corporation or company. Secs. 7 to 11 provide for the establishment of a sinking-fund to pay the principal of the debt, which should be \$100,000 the first year and increase each year thereafter by compounding at the rate of 6 per cent. In addition to these restrictions, sec. 6 of Art. XII explicitly forbade the state ever to contract any debt for purposes of internal improvement.

After the adoption of the Constitution in 1851, the General Assembly passed the necessary enabling legislation, providing⁴⁵ for the organization of the Board of Commissioners of the Sinking Fund, and for their taking over all books and funds of the old Commissioners of the Canal Fund. In the following year was passed an "act to create a sinking fund,"⁴⁶ of which the following were the important sections: It provided that the sinking fund "shall be faithfully applied to the payment of the principal and interest of the public debt" (sec. 1). "This fund shall be used exclusively to pay the public debt and shall not be diverted to any other use or purpose" (sec. 4). The fund was to consist of the net annual income of the public works and stocks owned by the state, the proceeds of the sales of canal, school, and ministerial lands, the principal and proceeds of the surplus revenue loans to counties, and of further sums to be raised by taxation (sec. 2). The auditor was ordered to "annually set apart as a specific fund for the payment of the principal of the public debt," the sum of \$100,000 in 1853, of \$106,000 in 1854, and so increasing yearly, "by compounding at the rate of 6 per cent per annum until the reimbursable debt of the state be fully paid" (sec. 3). When \$10,000 accumulates in the treasury, in addition to the amount necessary to pay the interest, the commissioners of the sinking fund shall buy bonds of the State, provided they can be obtained at their par value; or if not, then they may be bought at the market price, but not to exceed 6 per cent premium, or it may be invested in United

⁴⁵ Act of April 19, 1852.

⁴⁶ Act of March 14, 1853.

States bonds bearing a rate of interest not less than 5 per cent per annum⁴⁷ (sec. 6). The stocks of railroads owned by the state are to be sold for money or to be exchanged for state bonds, but in no case are they to be disposed of for less than the par value of the same.⁴⁸ The money thus obtained is to be applied to the payment of the debt (sec. 8).

It is perfectly clear from the explicit and repeated statements contained in this law, that it was the intention of the law-makers that the proceeds of the sinking fund should be applied only to the purpose of debt payment, and that this should be accomplished in a certain manner and within a certain time. But the policy of debt payment was not merely sanctioned by law; it was made mandatory by the Constitution. The provisions were clear and it seems impossible that they could have been misunderstood or evaded. As the amount of the debt in 1853 was about \$15,000,000, it should have been paid off in forty years, by the operation of the compounding sinking fund. The actual payment of the debt, however, took fifty years, and was attended with rapid payment at times, succeeded at other times by absolute neglect. The sinking fund provision was apparently disregarded at will, and the proceeds were devoted to any purpose except that of the discharge of the debt. Whenever it could do so, the General Assembly avoided levying taxes for this purpose. For instance, in the seven years, November 15, 1845, to November 15, 1852,⁴⁹ the amount of public debt paid was \$2,189,107; but this was derived from the following sources: surplus revenue of 1837 repaid to the state by the counties, \$1,345,584; proceeds from the sale of school and canal bonds, \$711,453; premiums on loans,

⁴⁷ This was amended by act of April 11, 1857, to the effect that when \$10,000 accumulated in the sinking fund it was to be sent to the transfer agent in New York City, who should purchase therewith outstanding bonds of Ohio on the open market.

⁴⁸ By act of May 1, 1854, this was amended so that the commissioners of the sinking fund might sell stocks owned by the state for less than their par value, if "in their opinion, the interests of the state will be promoted thereby." They were also authorized to appoint a transfer agent in New York City.

⁴⁹ Fourth *Semi-Annual Report of the Sinking Fund Commissioners*, January 20, 1854, *Exec. Docs.*, Pt. I (1853), Doc. No. 15.

\$285,193, or a total of \$2,342,230, not one cent for this purpose being raised during this period by taxation.

In accordance with the law and the Constitution the Board of Commissioners of the Sinking Fund organized itself early in 1852. There remained to the credit of the old sinking fund as it existed under previous laws, on November 15, 1851, the sum of \$213,911. This amount, together with various balances from sources described in the Constitution, amounting to \$243,469, was transferred to the new sinking fund, making a total of \$457,380. During the year 1854 almost seven hundred thousand dollars was paid on the principal of the debt,⁵⁰ and at the close of the year there still remained a balance of more than half a million of dollars, to the credit of the sinking fund. The commissioners began the policy of buying the bonds of Ohio, maturing in 1856 and 1860, at a premium in the open market; in 1853 they paid premiums amounting to \$16,586; in 1854 to \$27,822, and in 1855 to \$13,223.⁵¹ In 1853 they purchased stocks falling due in 1856 to the amount of \$117,417 at premiums ranging from 9.5 per cent to 22.5 per cent; of stocks falling due in 1860 they purchased \$146,145 at a premium of 8 per cent.⁵² The policy of debt payment thus vigorously entered upon met with general approval. Said the auditor, in his report for 1853:⁵³ "the wisdom of making annual provision for the payment of the public debt needs no argument. Among all the complaints that are uttered concerning heavy taxes none has been heard against the payment of that portion of the taxes which is applicable to the payment of the public debt." A levy of one and one-quarter mills on the dollar of the grand list was authorized for 1854 and a further levy of one mill for 1855.⁵⁴

The sums thus raised should have been used solely to meet the obligations of the sinking fund, but the legislature, almost immediately after the passage of the Constitution and the law of March 14, 1853 pledging the inviolability of the sinking

⁵⁰ *Auditor's Report* (1854).

⁵¹ Governor's Message (1855).

⁵² *Report of Sinking Fund Commissioners*, March, 1854.

⁵³ *Exec. Docs.* (1853), 318.

⁵⁴ Act of May 1, 1854.

fund, resumed the old practice of loaning it to other funds.⁵⁵ The act of May 1, 1854, the very act levying a tax for the sinking fund, at the same time provided for the "temporary transfer" of \$130,000 to the general fund for current expenditures; the act of April 11, 1856, authorized the transfer to the same fund of \$554,809. The money thus transferred was counted as a part of the general balance in the treasury, and was considered available for legislative appropriation. Thus, according to the report of the auditor there was, on November 15, 1855, an apparent balance to the credit of the sinking fund of \$537,499; but the money from this source was counted as a part of the general balance of \$703,370 "awaiting legislative appropriation," and was used for current expenditures. In like manner the auditor on November 15, 1856, reported a balance to the credit of the sinking fund of \$491,749, which was also counted in the general balance of \$579,518. In his message of 1856 Governor Chase recommended⁵⁶ taxation sufficient to reimburse the borrowed sums to the sinking fund, and legislation to guard the fund from every use except that of paying the interest and principal of the public debt. In his message the following year he repeats this recommendation.⁵⁷ It would seem that it was less legislation that was needed than sincere determination on the part of the legislature to carry out the purpose of existing laws. The act of April 11, 1857, was apparently designed to meet this evil, for it directed the commissioners of the sinking fund, upon the accumulation of \$10,000, to send it to the transfer agent in New York City, who should purchase Ohio bonds with it. In this way it would be withdrawn from the control of the legislature, and, no large sums being on hand, would not form such a tempting object for appropriation.

On January 1, 1857, the first large block of Ohio bonds would fall due, and on January 1, 1861, about twice as much

⁵⁵ This was not done during a period of debt creation, as in 1825 and subsequent years, and consequently cannot be defended in any way.

⁵⁶ Governor's Message, *Exec. Docs.* (1856), Pt. I, Doc. No. 10, p. 448.

⁵⁷ *Ibid.* (1857), Pt. I, Doc. No. 8, p. 371.

more. In his report for 1853⁵⁸ the auditor urged the payment of the debt falling due in 1857, amounting then to \$3,515,779. The governor, in his message for the same year,⁵⁹ repeated the recommendation. As it was not acted upon, he recurred to the subject in his annual message of 1855,⁶⁰ suggesting that the stock owned by the State in turnpikes, canals, and railroads be sold, and the proceeds be applied to the payment of the state debt. The commissioners of the sinking fund made the same recommendation,⁶¹ urging also a small tax to make certain immediate payment rather than refunding. The debt falling due in 1857 had now been reduced by purchase in the market, to \$2,508,710, and a vigorous policy, if begun in time, could easily have provided for the payment of this amount. But such a policy would have involved heavy taxation in order to restore the sums borrowed from the sinking fund, and to make up the balance. The legislature preferred the easier method of refunding, and turned a deaf ear to the urging of executive officers.

The act of April 8, 1856, provided that the state debt due January 1, 1857, should be refunded by a new issue payable between 1875 and 1886, as the commissioners of the sinking fund should determine. Proposals for this new 6 per cent thirty-year loan, fixed by the commissioners at \$2,400,000, were invited by advertisement in the leading journals of Europe and America, and, on October 1, 1856, it was awarded to the highest bidder for the whole amount, at a premium of 3½ per cent.⁶² As a premium of 9 or 10 per cent had been confidently anticipated, this refunding operation was a disappointment. In view of this fact the governor suggested⁶³ "the expediency of providing, by seasonable and suitable legislation, for the debt of \$6,413,325, which will be payable after 1860." For this pur-

⁵⁸ Report of February 12 (1853).

⁵⁹ Governor's Message (1853), 13.

⁶⁰ *Ibid.* (1855), 181.

⁶¹ *Eighth Semi-Annual Report of the Sinking Fund Commissioners* (January 14, 1856).

⁶² Governor's Message (1856), Pt. I, Doc. No. 10, p. 447.

⁶³ *Ibid.*, 448.

pose he again recommended "the sale of such stocks and other property of the state as can be disposed of for its real value."⁶⁴

During the year 1857, the debt was reduced by the payment of \$109,207, all but \$25,000 of which was derived from the premium on the loan of \$2,400,000. The constitutional requirement was \$126,248. Owing to an untoward event, however, the debt for the year was increased instead of being reduced. In June the state treasurer defaulted for over \$580,000, of which a considerable share was credited to the sinking fund commissioners and was to have been used to meet the payment of the July interest. But the commissioners were able, by borrowing \$150,000 from the Ohio Life Insurance and Trust Company, to meet punctually all obligations.⁶⁵ They were thus enabled to maintain the high reputation which Ohio had won, in contrast with many of her sister states, of never defaulting on the interest or principal of her public debt.

The loss thus occasioned, together with the accumulation of debts contracted in anticipation of revenue, necessitated a temporary loan of \$700,000, which was authorized by the act of

⁶⁴ As a matter of general interest a couple of tables relative to public and private debts in Ohio are inserted at this point:

AMOUNT OF THE PUBLIC DEBT OF OHIO HELD IN DIFFERENT COUNTRIES

Great Britain.....	\$ 3,600,356
France.....	1,794,134
Rest of Europe.....	1,399,491
Total Europe.....	6,883,981
West Indies, etc.....	456,144
Total outside of U.S.....	7,340,125
Ohio Banks.....	1,753,141
New York City.....	3,672,714
Ohio, 16 Other States, and Unknown.....	964,587
Total.....	\$13,738,567

DEBTS DUE IN OHIO IN 1857

Debts of state.....	\$16,000,000
Corporate debts of towns, counties, and municipalities.....	15,000,000
Railroad companies.....	50,000,000
Debts in judgment.....	10,000,000
Debts secured by recorded mortgages.....	50,000,000
Debts to banks and bankers.....	25,000,000
Debts to merchants outside of state.....	15,000,000
Other individual debts.....	40,000,000
Total.....	\$221,000,000

⁶⁵ Governor's Message (1857), *Exec. Docs.*, I, 347, 352.

April 12, 1858.⁶⁶ Satisfied that money could not be obtained in Ohio upon satisfactory terms, the commissioners of the sinking fund advertised in New York City for a temporary loan of \$500,000 at 6 per cent—\$250,000 payable July 1, 1860, and \$250,000 payable July 1, 1861.⁶⁷ Subsequently they borrowed \$100,000 in New York at a premium of 6/10 of 1 per cent, payable March 1, 1861, and \$100,000 of the Bank of Commerce in Cleveland, at a premium of 1 per cent, payable July 1, 1860, making the aggregate loan \$700,000 and the total premium obtained \$4,658. Of this sum \$298,680 was placed to the credit of the sinking fund, and \$405,978 to the general revenue fund.⁶⁸ The small premium obtained reflected not merely the lowered credit of Ohio, due in part to the peculiar exigency which forced her at this time to resort to the loan market, but also the effect of the financial panic of the previous year. During this year there was paid on the principal of the public debt only \$12,004,⁶⁹ although the constitutional requirement was \$133,823.

During the sixteen years ending with 1858 the public debt had been reduced by the sum of \$2,368,680. The sums received during the same period from surplus revenue, sales of land, from the public works, and from a few miscellaneous sources other than taxes, were \$6,687,947.⁷⁰ The greater part of this had, however, been applied to the payment of interest instead of to the reduction of the principal, and had by so much lessened the taxes of these years. By the act of 1858, all such revenues were to be paid into the sinking fund and used exclusively for the payment of the debt itself.

Another act passed the same day⁷¹ changed the office for the transfer of certificates of stock from New York City to Columbus, Ohio. All books and accounts were accordingly

⁶⁶ The act levied a tax of 7-20 of a mill for the years 1858, 1859, and 1860, for the payment of the loans, "the proceeds of which tax is hereby irrevocably pledged to the purpose aforesaid."

⁶⁷ *Report Sinking Fund Commissioners* (February 15, 1859), *Exec. Docs.* (1858), II, 657.

⁶⁸ *Ibid.*, 656.

⁶⁹ *Auditor's Report* (1859), p. 1; cf. also Governor's Message (1859), 98.

⁷⁰ Governor's Message (1859), *Exec. Docs.* (1859), II, 41.

⁷¹ April 12, 1858.

brought back to Columbus. As it was necessary, however, to have an agent in New York for the payment of the semi-annual interest, the American Exchange National Bank was later made an agency for this purpose.⁷² A joint resolution of the same date provided for burning certain certificates of the public funded debt held in the auditor's office, which was done.

By far the most important act of this eventful day was the "act to create a sinking fund for the payment of the principal and interest of the public debt of Ohio."⁷³ This was in large part a re-enactment merely of the act of March 14, 1853, though the inviolability of the sinking fund is declared in even stronger language:

It is hereby made the special duty of the auditor of state and the treasurer of state to keep, at all times and under all circumstances, the money belonging to the sinking fund inviolate, and to have special care that no money belonging to the sinking fund be used, transferred or applied, at any time, or under any circumstances, to any other purpose than the payment of the principal and interest of the funded debt of this state, and if from any cause at any time the sinking fund shall not be equal to the requirements of the Constitution, the auditor is required to raise the necessary amount, either by a sufficient increase of the state tax, or by a sale of property owned by the state, such sale to be first authorized by the General Assembly (sec. 5).

It will be noticed that by the language of this act the legislature shirked the necessity of levying additional taxes, and, by a method of very doubtful constitutionality, placed upon the auditor the responsibility of raising the needed sums by taxation in case the proceeds from the other sources did not suffice to meet the constitutional requirements of the sinking fund.

⁷² *Report Sinking Fund Commissioners, Exec. Docs.* (1872), II, 266.

⁷³ Swan and Critchfield, *Statutes of Ohio* (1860), I, 241. The act, as originally framed, and as it passed the Senate by a unanimous vote, contained provisions exempting from taxation the bonds to be issued under it. It was amended in the House by striking out the provision for exemption, and in that shape became law. As foreign bond-holders could not be reached, this was in effect discrimination against domestic bond-holders. The governor advocated the exemption of all bonds from taxation, such exemption to be printed on the bond; or, if they were to be taxed, he advocated stoppage of the tax at the source (Governor's Message, *Exec. Docs.*, 1859, II, 41). By the act of March 30, 1864, domestic bonds issued under that act were exempt from taxation.

These other sources were as numerous⁷⁴ as those enumerated in Alexander Hamilton's sinking fund in 1795, but they did not produce sufficient revenue to pay the interest on the public debt and meet the requirements of the sinking fund as to the payment of the principal. In 1859, no provision having been made by the General Assembly for taxation, the revenue from these various sources proved insufficient to meet the interest on the public debt (not including the temporary loan) by about \$114,000.⁷⁵ The auditor refusing, very properly, to assume the responsibility which the legislature had evaded, some other method of raising the necessary funds had to be resorted to. There was in the treasury about \$250,000 belonging to the sinking fund, which had been raised under a special levy for the payment of a temporary loan, and required by the terms of the act to be absolutely reserved for that purpose alone. This sum was accordingly "borrowed" in order to make up the deficiencies in the interest fund, the payment of the principal being of course again lost sight of. The blame for such shiftless financiering must of course be placed entirely upon the legislature, whose continual efforts to avoid raising⁷⁶ the tax-rate led to procrastination in the meeting of unavoidable obligations and to improper financial transactions. The "salutary act"⁷⁷ of the previous year had evidently failed of one of its purposes, that of preventing the diversion of a fund raised specifically for one purpose to another, when the need became sufficiently pressing. The whole theory of a sinking fund rests upon its inviolability, and if this be wanting, no amount of re-enactment of disregarded statutes can make it effective or useful.

⁷⁴ "The sinking fund shall consist of the net annual income of the public works and of all the stocks owned by the state, the proceeds of sales of canal, school, and ministerial lands, the principal and proceeds of the surplus revenue, loaned to counties, the proceeds of sales of shares of stock in any railroad company, canal company, or turnpike company, and the proceeds of sales of any or all of the public works of the state, when sold, and of such further sum, to be raised by taxation, as may be required" (sec. 2, act of April 12, 1858).

⁷⁵ *Exec. Docs.* (1859), Pt. II, p. 28.

⁷⁶ In fact the levy for the sinking fund had been decreased during the preceeding four years (*Auditor's Report, Exec. Docs.*, 1859, II, 75).

⁷⁷ It is thus described in Governor's Message (January 2, 1859), *Exec. Docs.* (1858), Pt. II, p. 96.

If a policy of debt payment be believed in, the wisdom of the constitutional convention of 1851 had now been justified, of inserting in the Constitution a provision requiring the gradual amortization of the public debt. Faced by the necessity of living up to their oath of office, the members of the General Assembly did as little as they could. In 1859,⁷⁸ and again, with little change, in 1860,⁷⁹ they passed an act providing that whenever any portion of the debt should become payable, new bonds were to be issued in such instalments that the annual levy required by the Constitution would supply the means for their payment in full at maturity; and the act required their payment accordingly without renewal and without delay.⁸⁰ This plan, if adhered to, would extinguish the debt in thirty-one years, but Governor Chase thought "the people wish speedier payment."⁸¹

This act had been called forth by the fact that on December 31, 1860, a portion of the state debt, amounting to \$6,413,325, would mature, and means had not been provided for its extinction. Acting under the provisions of the act the commis-

⁷⁸ Act of April 2, 1859 (*O.L.*, 1859, pp. 105-112).

⁷⁹ Act of March 26, 1860 (*O.L.*, 1860, p. 111).

⁸⁰ The act of 1859 was very definite and explicit in its directions to the commissioners of the sinking fund and other financial officers as to their duties in the payment of the state debt. Section 2 stated the yearly amounts to be paid on the principal of the debt from the sinking fund from 1852 to its final extinguishment in 1891 (see Table I). Sec. 4 provided that the interest on the new issues of bonds should be paid on February 1 and August 1, which was much more convenient than the previous dates of January 1 and July 1, as the proceeds of the semi-annual tax collections first became available late in January and July. In sec. 8 the amount of the state debt outstanding was definitely fixed as follows (the second column is taken from the *Auditor's Report* for 1860, p. 27):

Year	Rate of Interest	Amount
	Per Cent	
Due after December 31, 1860.....	6	\$ 6,413,325
Due after December 31, 1865.....	5	1,025,000
Due after December 31, 1870.....	6	2,183,532
Due after December 31, 1875.....	6	1,600,000
Due after December 31, 1886.....	6	2,400,000
Amount of foreign debt.....		13,621,857
Amount of domestic debt.....		275,385
Total, January 1, 1859.....		\$13,897,242

⁸¹ Governor's Message (1859), p. 41.

sioners of the sinking fund advertised in August, 1860, for proposals for a loan of \$6,400,000. As they were restricted to a rate of interest not exceeding 6 per cent, and were forbidden to accept less than par, they were forced to withdraw the loan in December, when it became clear from the condition of the money market that they could not dispose of their bonds on these terms.⁸² This was indeed a most unfortunate time to borrow, for impending war had already raised interest rates and made capital scarce. At the same time the needs of the State for ready money for other purposes were increased.

During all this time the receipts from the public works, the canals, for which this debt had been largely incurred, were falling lower and lower. In 1856, the expenditures exceeded the revenues and a deficit of \$77,000 appeared; this was reduced the next year to \$25,000; but rose again in 1858 to \$66,000. It seemed doubly hard to pay taxes for the interest and principal of a debt incurred for canals, whose very maintenance required still further taxation. Accordingly a movement began for the disposal of the public works. The first proposition looking to this end had been introduced into the Senate in 1852-53, and the Committee on Public Works, to whom it was referred, made a favorable report thereon.⁸³ At this time it was estimated that the canals could be disposed of for \$4,000,000. Such a disposal of the canals was urged by the governor in his messages of 1855 and 1856, by the auditor in his reports of 1853 and 1857, and by the commissioners of the sinking fund in 1856. In 1856-57 the movement was renewed in the General Assembly, but without any result; it was now estimated that the canals could be sold for \$3,000,000. The steady decrease in the net profits of the canal, which, beginning in 1856, were now transformed into a deficit, lent an additional argument to those who favored their sale.⁸⁴

As a beginning in this direction the commissioners of the

⁸² *Auditor's Report* (1860), *Exec. Docs.* (1860), II, 22.

⁸³ *Senate Jour.*, I, Pt. II, App., p. 33.

⁸⁴ The following is taken from the *Auditor's Report*, 1857, p. 412. The column of "other

sinking fund were authorized⁸⁵ to sell for cash at the market price, even though this were under par, or to exchange for state bonds, stock of any railroad or canal company owned by the state. They were also directed to sell the shares of turnpike companies, held by them, at a fair cash value. Finally, in 1861, the public works of the state were leased to a private company for a term of ten years, at the nominal rental of \$20,075 a year. Under this act the Miami & Erie Canal, Ohio Canal, Walhonding Canal, Sandy and Beaver Canal, Muskingum Improvement, and Western and Maumee Road were removed from state management and ceased to be a burden, except to a slight extent, upon state revenues. The action in disposing of them was precipitate and called forth an expression of regret from the governor that at least a commission of inquiry had not been first appointed to consider the matter.⁸⁶

ERNEST L. BOGART

UNIVERSITY OF ILLINOIS

[*To be concluded*]

expenses" is omitted, as it has no significance in this connection, and can easily be calculated. Figures after 1857 are from the auditor's annual report.

TABLE SHOWING DECLINE OF NET PROFITS OF CANALS OF OHIO

Year	Amount Received from Tolls, Fines, and Rents	Repairs	Balance of Canal Revenue Applicable to Payment of Interest, etc., of Debt	Deficit
1850	\$747,000	\$320,000	\$408,000	.....
1851	846,000	363,000	437,000	.....
1852	663,000	422,000	227,000	.....
1853	626,000	432,000	199,000	.....
1854	508,000	327,000	143,000	.....
1855	466,000	286,000	154,000	.....
1856	425,000	461,000	.....	\$77,000
1857	340,000	335,000	.....	25,000
1858	297,000	345,000	.....	66,000
1859	247,000	337,000	.....	99,000
1860	287,000	325,000	.....	38,000

⁸⁵ Act of January 12, 1859 (*O.L.*, 1859, p. 5).

⁸⁶ Governor's Message, *Exec. Docs.* (1861), p. 349.

TABLE I
OHIO STATE DEBT AND SINKING FUND

Date	Payment on Principal	Amount Due under Laws and Constitution	Amount Maturing this Year
1825 .....	.....	.....	.....
1826 .....	.....	.....	.....
1827 .....	.....	.....	.....
1828 .....	.....	\$ 10,000	.....
		(Law of February 4, 1825)	
1829 .....	.....	20,000	.....
1830 .....	.....	30,000	.....
1831 .....	.....	40,000	.....
1832 .....	.....	40,000	.....
1833 .....	.....	40,000	.....
		(Canals completed)	
1834 .....	.....	40,000	.....
1835 .....	.....	40,000	.....
1836 .....	.....	40,000	.....
1837 .....	.....	25,000	.....
1838 .....	.....	25,000	.....
1839 .....	.....	25,000	.....
1840 .....	.....	25,000	.....
1841 .....	.....	25,000	.....
1842 .....	.....	25,000	.....
1843 .....	.....	25,000	.....
1844 .....	.....	25,000	.....
1845 .....	.....	25,000	.....
1846	\$ 85,002	25,000	.....
1847	119,884	25,000	.....
1848	404,755	25,000	.....
1849	131,650	100,000	.....
		(Law of February 24, 1848)	
1850	35,766	106,000	\$4,385,659
1851	466,681	112,360	.....
	(252,169)	(Constitution of 1851)	.....
1852	76,158	100,000	.....
		(Law of March 14, 1853)	
1853	324,470	106,000	.....
1854	693,243	112,360	.....
1855	516,591	119,102	3,442,133
1856	21	126,248	.....
1857	109,207	133,823	.....
		(Law of April 12, 1858)	
1858	12,008	141,852	.....
1859	62,528	150,363	.....
1860	295,219	159,385	6,812,481
1861	565,000	168,948	.....
1862	755,610	179,085	.....
1863	676,753	189,830	.....
1864	364,058	201,220	.....
1865	588,737	213,292	.....

TABLE I—*Concluded*

Date	Payment on Principal	Amount Due under Laws and Constitution	Amount Maturing this Year
1866	\$1,097,246	\$ 226,091	.....
1867	782,827	239,656	.....
1868	499,266	254,035	.....
1869	516,094	269,277	.....
1870	264,445	285,434	.....
1871	729,415	302,560	.....
1872	439,175	320,714	.....
1873	372,484	339,957	.....
1874	222,857	360,354	.....
1875	38,285	381,975	.....
1876	1,465,415	404,894	\$1,473,115
1877	5,000	429,188	.....
1878	2,700	454,939	.....
1879 .....	.....	482,235	.....
1880 .....	.....	511,169	.....
1881	1,275,140	541,839	4,072,640
1882	300,000	574,349	300,000
1883	379,150	608,610	325,000
1884	419,639	643,339	350,000
1885	382,650	684,059	350,000
1886	375,000	725,103	375,000
1887	503,564	768,609	2,243,564
1888	619,800	814,726	850,000
1889	250,000	863,610	250,000
1890	255,000	915,427	250,000
1891	250,000	970,352	250,000
1892	250,000	1,028,574	250,000
1893	250,000	1,090,288	250,000
1894	250,000	1,155,705	250,000
1895	250,000	1,255,047	250,000
1896	250,000	1,298,550	750,000
1897	250,000	1,376,463	250,000
1898	250,000	1,459,051	250,000
1899	240,000	1,566,594	240,000
1900	300,000	1,660,590	300,000
1901	250,000	1,760,225	250,000
1902	250,000	1,865,838	250,000
1903	200,000	1,977,788	200,000